

Memorandum

To: Panel Members Date: December 19, 2002

From: Diana Torres, Manager
Peter DeMauro, General Counsel Analyst: C. Robinson

Subject: One-Step Agreement for **Melles Griot, Inc.**
(www.mellesgriot.com)

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Promotion of California's Workforce
Stimulating Exports/Imports
Moving To a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 670
 - In California: 240
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$97,240
- Substantial Contribution: \$0
- Total ETP Funding: \$97,240
- In-Kind Contribution: \$170,700
- Reimbursement Method: Fixed Fee

- County (ies) Served: San Diego
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

Contract Management Group, Inc., of Walnut Creek, California in an amount not to exceed \$14,586 for all project administration services.

THIRD PARTY SERVICES:

The Applicant states that Contract Management Group, Inc., of Walnut Creek, California provided assistance with the development of the application, inclusive of a Training Needs Assessment, Training Plan, Curriculum, and other application requirements for a flat fee of \$5,000.

NARRATIVE:

Founded in 1979 and located in San Diego, California, Melles Griot, Inc. (Melles Griot) is a global manufacturer and supplier of Photonics products including laser, optics, motion-control systems, laser measurement instrumentation and opto-mechanical hardware. Title 22, California Code of Regulations (22 CCR) Section 4416(b) states, in part, that "A company engaged in manufacturing is deemed to meet the out-of-state competition requirement for purposes of Panel Funding....". Melles Griot has been deemed as eligible for ETP funding as an industrially classified manufacturer retraining current employees in competition with other manufacturers located outside of California.

Melles Griot, a wholly owned subsidiary of Barloworld, Inc., employs 670 persons worldwide with 240 individuals located in California. The Carlsbad headquarters currently houses the Laser Group business unit and the Photonics Component business unit, each functioning as separate divisions within the company. The Laser division has 170 employees and is the division proposed for training with ETP funding. The Laser division supplies the elements used to create, transform, and detect light for applications in diverse markets including, but not limited to, analytical instrumentation, biomedical, telecommunications, Raman spectroscopy, genomics, medical, stereo lithography, barcode, holography, semiconductor, and image scanning. Its major customers include LASOS, Laser Quantum, Crystalaser and American Laser, located in Germany, England, China and Utah respectively. Some of Melles Griot's major competitors are Caliper, KLA Tencor, Amersham Biosciences and PSC in California and Oregon.

Melles Griot has experienced a decline in business in the past three years relative to the high-tech sell off in the semiconductor, telecom and biotech markets. In 2000, these markets comprised 63% of the company's business. With the recession in these markets, Melles Griot continues to experience a decrease in its business that has resulted in a 40 percent downturn in overall trade for 2002. The shift in the market coupled with lower than anticipated quarterly earnings, led the company to consolidate both its Photonics component (previously located in Orange County) and its Laser division into a single facility located in Carlsbad in 2002. As a direct result of the consolidation, the Carlsbad facility is now challenged to improve its overall efficiency to remain cost competitive and return a fair value to customers and company shareholders. In addition, the Manufacturing Resource Planning (MRP) system used by the company is antiquated and no longer supports the company's new business goals.

NARRATIVE: (continued)

To meet the aforementioned challenges, Melles Griot must move toward becoming a high performance workplace. The company will need to implement major cultural changes to increase its performance and competitive edge. In order for the company to deliver a high quality, competitively priced product, it must operate in a cost-effective manner. Laser division employees need to understand how their work impacts the next person on their team, and how they are part of an internal chain that is linked to improved manufacturing processes. Front-line workers must also develop decision-making skills while working together as teams to reach higher levels of competence and performance.

To initiate these changes and streamline key operating processes, Melles Griot will also be implementing Baan software (Baan) as its new MRP system. Manufacturing, sales, engineering, purchasing, sales administration, accounting and management will all be affected by the new MRP system. To ensure successful implementation of Baan, company employees must now be able to understand, improve, and document all of Melles Griot's processes. Formal training includes cross-training to equip employees with the skills necessary to thoroughly understand their own work processes and the effect of those processes on other related job functions.

To meet this end, an extensive employee training needs assessment indicated that, in order to successfully implement the Baan MRP system and improve company efficiency, major deficiencies in continuous improvement, business, computer, management, and manufacturing skills must be addressed. The company has identified 146 Managers, Sales, Buyers, Accountants, Engineers, Marketing, Quality Control, Administrative, Technicians and Production related staff who will be provided between 44 and 108 hours of Class/lab training. Of the 146 proposed retrainees, 126 (86 percent) meet the definition in Title 22 California Code of Regulations 4400 (ee) (1) and (3) of a frontline worker. The remaining 20 (14 percent) are managers. To meet the documented need for a comprehensive training plan, a menu curriculum has been developed which consists of the following:

Continuous Improvement Skills:

Each trainee included in the training plan will receive Continuous Improvement Skills training to ensure the understanding of Quality, Problem Solving, Process Improvement and Performance Measurements. These topics are necessary to improve Melles Griot's efficiency and meet its goal of improved product quality, decreased production times and reduced costs. Continuous Improvement training will allow employees to recognize and resolve problems involving their own and related work processes, interact and communicate effectively within and across work groups, and work effectively in work teams and in team building. Understanding these concepts is vital to lower production costs and eliminate non-value added steps from the Company's manufacturing processes. These skills will also enable the company to reduce cycle times and increase margins.

Business Skills

Most of the trainees included in the training plan will need to take courses in Business Skills to provide them with skills that will improve their customer service, technical writing, strategic planning, project management and budgeting skills. Courses in these topics will provide each employee with knowledge and understanding of the Melles Griot's business goals. Melles Griot employees must develop critical core business competencies in order to aid with the changing culture of how the company conducts its business.

NARRATIVE: (continued)

Computer Skills

Almost all of the trainees included in the training plan will take required courses to develop their knowledge and skills in the use and application of the new Baan MRP system. The new Baan MRP software program requires employees to acquire the knowledge and skills necessary to implement, effectively utilize and apply the software to job functions. The new system will affect and improve key processes across all operations of the company. Training offered in this area will include the Baan software application, Computer Assisted Design (CAD), Computer Aided Manufacturing and computer networking. This training will provide an opportunity for growth and ensure a successful transition from the old MRP system to the new Baan system. Computer Skills training in these topics will also assist the company in its move toward a high performance workplace by increasing employee competency levels, thus resulting in more efficient and cost effective processes.

Manufacturing Skills

The majority of trainees included in the training plan will complete courses in the Manufacturing Skills. Complexity of new processes to be implemented by Melles Griot and the continuously evolving technical nature of the Laser industry require that new skills must be learned by company employees. In order to ensure a successful implementation of the Baan MRP system, employees must now understand, improve, and document all processes. This will require additional manufacturing training in Production Operations, Inventory Control, equipment operation and warehousing. Trainees will develop skills that would enable them to understand the interface between their assembly processes and the new MRP system, ultimately resulting in increased overall company efficiency in the production, assembly, and warehouse areas.

Management Skills

Management and Supervisors included in the training plan will have the opportunity to participate in management skill development courses. Management staff has been largely promoted from within and are sent to occasional seminars focused on individual needs. Most lack the high performance leadership skills that will enable Melles Griot to transition to a the high performance workplace. This training will provide Managers and Supervisors with skills sets to lead employees and work within a high performance work environment.

Supplemental Nature of Training

Over the past three years, Melles Griot has purchased approximately \$2,075,000 dollars in Baan software, hardware, International Organization for Standardization (ISO) training and computer upgrades. In addition, Melles Griot has an annual training budget of about \$100,000 for informal training, one-day seminars, new-hire orientation and any government mandated training. However, Melles Griot does not have a training budget to implement the proposed high performance processes and formalize an internal continuous improvement system outlined in the ETP training proposal.

Supplemental Nature of Training: (continued)

None of the proposed ETP-funded training will be basic skills that Melles Griot provides during its normal course of business. The ETP training is new and advanced skills training, which can only be delivered with assistance from ETP. Following the term of the proposed training plan Melles Griot has committed to utilizing a portion of its \$100,000 training budget for updating ETP-funded Continuous Improvement and technical skills training for all of its employees.

In-Kind Contribution

Company representatives have certified that the company will invest \$170,700 for wages paid to retrainees during training.

COMMENTS:

Senior Policy Managers/Executive Level - Managers

The proposed Contractor certifies that no senior policy manager or executive level employees have been included in this training project.

Turnover Rate:

Melles Griot is requesting that the Panel grant a waiver of its turnover rate requirements as allowed under provisions of 22 CCR, Section 4417. This Section permits the Panel to accept a turnover rate exceeding 20 percent if the employer has experienced a singular reduction in force or other occurrence, which adversely affected its turnover rate.

A 40 percent downturn in the semiconductor, telecom and biotech markets over the last three years has significantly impacted Melles Griot's overall business and employee turnover. A survey of 720 other high technology companies located in California indicated similar problems for the same period of time.

As previously mentioned, prior to the spring of 2002 only the Laser division occupied the Carlsbad facility. The 2001 calendar year turnover rate for this facility had increased to 36 percent due to the above industry and business factors. Now that both the Photonics and Laser divisions are co-located at the Carlsbad facility, the combined turnover for both divisions for the current year (2002) must be considered in the analysis of the waiver request.

While the Laser division's turnover has been reduced to 15 percent, the Photonics division's increased turnover of 57 percent brings the combined Carlsbad facility turnover to approximately 27 percent through September 2002. The Photonics' increase is directly attributed to employees, formerly of the Irvine facility, leaving the company because of its move to the Carlsbad facility. Only employees of the Laser division will be trained under this proposal.

Melles Griot reports that its Carlsbad facility turnover rate is now on a downward trend. The Photonics division is stabilizing its workforce and the company believes that its turnover rate in California will be less than 20 percent in the last 12 months of the proposed ETP Agreement. Thus, Melles Griot has agreed to a contract requirement to withhold 25 percent of the cost per trainee unless it reduces its overall

Turnover Rate: (continued)

turnover rate to less than 20 percent by the end of the Agreement term. In addition, the company agreed to an increase of post training employment retention period from 90 to 120 days.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement and the company's turnover waiver request if funds are available and the project meets Panel priorities. This recommendation is based on the Company's statement that this training will result in the implementation of a high performance workplace and improve the company's ability to compete in the nationwide laser market. The result will be increased long-term job security for Melles Griot's California workforce.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Jobs 1-5 Retraitees	Continuous Improvement, Manufacturing, Business, Computer and Management Skills	146	44 - 108	N/A	N/A	\$572 - \$1,404	*\$11.16 - \$70.92
						<u>Range of Hourly Wages</u>	
						*11.16 - \$70.92	
						<u>Prevalent Hourly Wage</u>	
						\$15.02	
						<u>Average Cost per Trainee</u>	
						\$666	
<u>Health Benefit used to meet ETP minimum wage:</u>					<u>Turnover Rate</u>	<u>% of Mgrs & Supervisors to be trained:</u>	
* Health benefits ranging from \$1.73 to \$2.14 will be added to the hourly wages in the occupations identified above to meet the ETP minimum wage requirement of \$11.16 for San Diego County.					27%	14%	

MELLES GRIOT, INC.
MENU CURRICULUM

Class/Lab
Hours

44 – 108 Trainees will be provided any of the following:

Continuous Improvement Skills

Problem Solving
Process Improvement
Team Building
Quality Concepts
Strategic Quality Control (SPC)
Performance Measurements

Manufacturing Skills

Production Operations/Work Flow
Inventory Control
Equipment Operation
Warehousing

Business Skills

Customer Service
Technical Writing Skills
Project Management
Strategic Planning
Budgeting Skills

Computer Skills

Manufacturing Resource Planning (MRP)-Baan Software
Computer Assisted Design (CAD)
Computer Aided Manufacturing (CAM) Computer Networking

Management Skills (Only Managers Will Receive This Training)

Leadership Skills
Decision Making Skills
Coaching Skills
Motivation Techniques